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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Federal-State Joint Board	)	CC Docket No. 96-45
on Universal Service	)	
	)	
Forward-Looking Mechanism	)	CC Docket No. 97-160
for High Cost Support	)	

PROPOSAL OF THE ARIZONA CORPORATION COMMISSION FOR DISTRIBUTION OF FEDERAL USF FUNDS TO ESTABLISH SERVICE TO LOW-INCOME CUSTOMERS IN UNSERVED AREAS, OR IN THE ALTERNATIVE, FOR AMENDMENT OF THE MAY 8, 1997 REPORT AND ORDER TO PROVIDE FOR FEDERAL USF DISTRIBUTION FOR THIS PURPOSE

I. INTRODUCTION

On April 15, 1998, the Common Carrier Bureau ("CCB") of the Federal Communications Commission ("FCC" or "Commission") released a Notice, DA 98-715, seeking comment on proposals to revise the methodology for determining federal universal service support.[1] The Notice states:

> In the Report to Congress, the Commission states that prior to implementing the Commission's methodology for determining high cost support for non-rural carriers, the Commission will complete a reconsideration of its 25/75 decision and of the method of distributing high cost support. [footnote omitted]. The Commission also states that it will continue to work closely on these issues with states members

[1] Because of the time constraints for submitting a proposal, the Arizona Commission was unable to provide supporting data and to discuss these issues in depth. Therefore, the Arizona Commission will submit more extensive comments on its proposal in the comment phase of this proceeding.

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> of the Federal-State Joint Board on Universal Service (Joint Board), including holding an en banc hearing with participation by the Joint Board Commissioners. [footnote omitted].

The CCB encouraged interested parties to submit additional proposals for modifying the Commission's methodology, or updates to the proposals already a part of the record in this proceeding.

The Arizona Corporation Commission ("Arizona Commission") submits this proposal covering a very discrete issue which undermines the universal telephone service objective in several regions of this country including some western states such as Arizona, and upon which the federal funding mechanism has thus far been silent. Unlike the other proposals now before the FCC or likely to be filed with it in response to its notice, the Arizona Commission's proposal is not intended as a comprehensive alternative to the High Cost Fund Distribution Model but is directed to address an insidious problem found in regions of the United States including some western states, such as Arizona. That problem is the inability of low-income customers located in unserved areas to obtain telephone service because they cannot afford to pay the line extension or construction charges necessary to extend facilities to their homes.

The present distribution methodology for the High Cost Fund at the federal level does not provide any vehicle or method of assistance to help the "unserved" rural low-income customer to obtain service; rather support has traditionally and still is only directed towards keeping the rates low for rural customers who already have telephone service. The Arizona Commission urges the FCC to give some recognition to this problem at the federal level and to work with states to resolve it. These Americans are in reality the essence of what a "universal telephone service" fund should be all about.

The Arizona Commission proposes that a fixed proportion of federal funds be set aside to begin to address the problem of unserved areas and the inability of low-income customers to obtain telephone service because they cannot afford to pay the required line extension or construction charges. This portion of the fund would be used solely to partially offset the line extension or construction charges required to put facilities in place to reach these low-income or Lifeline customers. The Arizona Commission proposes that distribution of these funds would be in accordance with fixed federal and state guidelines.

The underlying tenet of this proposal is that a "one-size-fits-all" solution is rarely the answer in instances such as this, when faced with an issue as complex and multifaceted as universal telephone service in 50 states with the diverse and varying terrain and demographics. The Arizona Commission submits that the federal High Cost Fund, if it is to truly be effective, must address this sort of variance between the states.

II. BACKGROUND AND NATURE OF THE PROBLEM.

Arizona's population is clustered primarily around its two largest urban centers, Phoenix and Tucson. U S WEST Communications, Inc. is the largest local exchange carrier in the state, with approximately 2.2 million access lines. U S WEST is the incumbent local exchange carrier (ILEC) in Phoenix and Tucson's metropolitan areas, as well as large parts of the remainder of the state. Most of the other regions of the state are divided between the other ILECs. The Arizona Commission has also certificated approximately 15 competitive local exchange carriers in Arizona. Because Arizona's population is largely urban in nature, it has never been a large recipient of the federal High Cost Funds. In Arizona, there are unserved regions located both within and outside the exchange boundaries of many ILECs.

Most ILECs have construction charge and line extension charge tariffs that apply when new service is requested in an unserved area. When an unserved customer within the certificated area of an ILEC requests service, the ILEC will typically do an engineering study to determine the cost of putting the necessary facilities in place to provide service. As an example of how an ILECs line extension tariffs generally operate, if the ILEC puts a six-pair cable in, the actual cost to the ILEC may be $20,000. Most ILEC line extension tariffs then allocate only a portion of this cost over the number of projected customers necessary to achieve full capacity on the facility. Thus, in this case where a six-pair cable is utilized, the line extension charges to the individual customer may be around $2,000.

In one recent situation in Arizona, a low-income elderly woman had requested service back in 1993 and was provided with a line extension estimate of approximately $2,700. She could not afford to have local service connected and is still without telephone service. This customer was recently given a new estimate of $1,500. However, even with options such as deferred payment that may be acceptable for the average American, this is no option for low-income customers because they simply cannot afford to make the payments, even over time, to get the facilities in place.

III. EXISTING MEASURES DO NOT ADDRESS THIS PROBLEM.

First, the provision of the Federal Act relating specifically to unserved areas, e.g. Section 214(e)(3), does not apply here. In the example given above, the ILEC was willing to provide service to the customer. Thus, this is not a case that would fall under the provision of Section 214(e)(3) since the carrier is willing to provide service. In other words, this is not a situation where a state commission would order the company to provide service, because the company is already willing to do so. Rather, in these cases, the low-income customer simply cannot afford to pay the line extension charges required by the Company's tariffs.

Second, as already discussed, the focus of the High Cost Fund has in the past been and continues to be upon keeping the monthly phone rates of rural subscribers affordable. Thus, its sole focus is upon keeping the rates low of rural customers who already have phone service.

Third, the Lifeline Program subsidizes the monthly rates of low-income customers. Recently, the FCC's expanded Lifeline and Link Up programs went into effect. In Arizona alone, it is estimated that approximately 177,000 low-income customers qualify under the federal default criteria for participation in the program. However, because some of these low-income customers in Arizona are unable to pay to have the facilities connected to them, they are unable to take advantage of the important program and the lower monthly rates.

Fourth, the Commission's Link Up Program is limited to providing a reduction in the carrier's customary charge for commencing telecommunications service for a single telecommunications connection at a consumer's principal place of residence. 47 C.F.R. § 54.411(a)(1). The reduction is half of the customary charge or $30.00, whichever is less. Id. In addition, the Commission's Link Up Program also waives the interest charges for a period of one year for connection charges up to $200. While this provides some measure of relief, it is wholly inadequate in most instances.

Fifth, existing measures at the state level are also inadequate to address this problem in many instances. As already explained, the approved line extension tariffs of most companies already provide for a reduced and pro-rated cost to the customer.

Sixth, while the Rural Utilities Service (RUS) provides low interest loans to companies for the purpose of bringing facilities into remote areas, this has not solved the problem by any means.

Finally, cellular or wireless technologies are not a viable option at this time either since the networks do not yet exist in remote areas or in some instances wireless cannot be provided due to geographical constraints. In some extreme cases, the customer may not have electricity yet. In other cases, the cost of cellular calls is still extremely expensive, so from an economic perspective, it is not the functional equivalent of wireline service yet.

IV. COOPERATION AND COORDINATION BETWEEN STATES AND FCC ARE NECESSARY TO RESOLVE THIS PROBLEM.

The Arizona Commission strongly believes that cooperation and coordination between the states and the FCC are necessary to resolve this problem.

The Arizona Commission has recently, through a Task Force, begun to reexamine its own state universal service rules to address issues such as this. The Task Force has had a series of meetings, which have included representation by individuals living in unserved areas. The Task Force's efforts recently culminated in proposed revisions to the Arizona Commission's own USF Rules. Many of these revisions attempt to provide some incentive to carriers to construct facilities to unserved areas. The Arizona Commission Staff has asked for a further round of Task Force comments on the proposed revisions. Once revised, the Task Force will present them to the full Arizona Commission.

Nonetheless, given the seriousness of the problem, the Arizona Commission believes that some recognition of this problem and action by the Joint Board and FCC is also necessary.

V. ARIZONA COMMISSION'S PROPOSAL FOR MODIFYING THE EXISTING FEDERAL DISTRIBUTION MODEL TO ADDRESS THIS PROBLEM.

A. Defining the Problem and Recognition of the Problem as a Universal Service Issue at the Federal Level and the Need for Action to Remedy It.

The first step in the Arizona Commission's proposal involves defining the problem. We must recognize that low income citizens without telephone service and unable to get it is as serious a problem and as critical a threat to universal service as people living in rural areas faced with the prospect of higher than average telephone rates. Then, it must be recognized that some action is necessary to remedy the problem.

B. Determining the Extent of this Problem in States Affected by it.

A recent article in *U.S. News & World Report* reported that:

> Yet a study by state utility regulators last summer revealed that there are some 5,000 involuntary phoneless souls like the Womacks in Arizona alone. Though no overall national figures exist, interviews with phone companies big and small, as well as with consultants, regulators, and other government officials, suggest there are thousands of other Americans in mostly rural areas who cannot get phone service. February 2, 1998 Business and Technology Section, pp. 39-40.

As this passage indicates, no one is aware of the true extent of this problem. The Arizona Commission does not know the real extent of this problem in Arizona. The Arizona Commission is at the present time attempting to gather information on the extent of this problem in Arizona so that it can attempt to address this issue at the state level more effectively on an ongoing basis.

The Arizona Commission suggests that the Joint Board and the Commission attempt to gather similar information to provide a basis to determine the extent of the problem on a national level.

C. Focus Upon Low-Income Customers Who Meet the Federal Lifeline Default Eligibility Criteria.

The problem of unserved areas is not limited to the low-income. However, the Arizona Commission suggests that federal efforts focus upon low-income customers, as defined either by the federal Lifeline default eligibility criteria or state established Lifeline criteria.

D. Allocation of Fixed Amount of Federal USF Funds to Be Used to Partially Offset Line Extension Charges And/or Line Construction Charges Associated with Establishing Service to Low-income Customers.

The Arizona Commission recommends that the Joint Board and FCC allocate a fixed amount of federal USF funds to be used to partially offset the line extension or construction charges associated with establishing service to these low-income customers. State USF funds, such as the Arizona AUSF, would then also provide assistance for this purpose.

Allocation of a fixed amount on an annual basis for use by all states would minimize the burden on the federal High Cost Fund, as would contributions from state universal service funds.

E. Federal and State Guidelines Setting Criteria and Standards for Distribution of Funds.

The Arizona Commission also recommends the establishment of federal and state guidelines and criteria for the distribution of these funds, with the Joint Board having the initial responsibility for setting federal guidelines.

F. State Examination of Cases on an Individual Basis.

Individual states should be responsible for administering the program, as is already the case with the Commission's Lifeline and Link Up programs. The states would examine cases on an individual basis, and if they believed the appropriate standards had been met, they would recommend distribution of funds from both the federal and state USF funds.

VI. MAXIMUM STATE FLEXIBILITY IN UTILIZING FEDERAL UNIVERSAL SERVICE FUNDS IS IN THE PUBLIC INTEREST.

A one-size-fits-all solution to the universal service issue is **not** as effective as one tailored to meet the diverse and multifaceted needs of the individual states. Consequently, the more flexibility states are given to utilize federal universal service funds to meet the needs of their individual jurisdictions, the more effectively states and the FCC can address the universal service issue.

VII. CONCLUSION.

The Arizona Commission respectfully requests that the Joint Board and the FCC modify the federal USF distribution methodology to provide a partial offset of line construction or extension charges for low-income customers living in unserved areas.

RESPECTFULLY SUBMITTED,

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Dated: April 27, 1998.

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